



## Treasury euro studies: Summary

By FT staff

Published: June 9 2003 11:31 | Last Updated: June 9 2003 14:41

**The Treasury on Monday published 18 studies prepared by experts to support the decision on UK entry to the euro. Below are some of the key points:**

**CURRENCY CONVERSION** - The equilibrium exchange rate for the pound against the euro is about 73p to the euro. This implies that at its current rate of about 71p to the euro, down from peaks of over 60p to the euro a couple of years ago, the pound would need only a very small devaluation to enter the single currency.

**TRADE** - A "reasonable" estimate of the long-term benefits to UK trade from entry to Economic and Monetary Union would be an increase of 5-50 per cent in trade with the euro area with no trade diversion from trading partners in other parts of the world. The upper end of this range would be equivalent to an extra £1,700 of annual income for every man, woman and child in Britain.

**HOUSING** - High levels of mortgage debt in Britain, combined with the dominance of variable rate mortgages, make household spending in the UK more sensitive to interest rates than in any other country in the euro area. Evidence in the euro area to date suggests little by way of convergence of housing and mortgage markets following Emu membership.

**LABOUR MARKET** - Wage flexibility in Britain has not been fully tested in recent years and could be more severely tested if the UK decided to join Emu. Progress on labour market flexibility in the large euro-area economies has been slow and starts from a weaker position than Britain in terms of unemployment and employment levels.

**COMPETITION** - A single currency has the potential to intensify competition, particularly by increasing the likelihood of cross-border entry into markets. But it would only be possible to gain these benefits in full if other barriers to competition in Europe were removed.

**PRICES** - Entry to the single currency should reduce price divergence between Britain and the euro area but will not eliminate it - transport costs and local differences in taxes and wages will not necessarily be affected. Overall, the process of price convergence is likely to take a long time.

**BUSINESS CYCLES** - The average degree of convergence since 1978 between the UK business cycle and the eurozone countries has been relatively high over 5-year rolling periods but in general, the degree of convergence is more strongly correlated with that of the US.

**INFLATION** - Joining the euro immediately at an exchange rate of 73p to the euro, estimated as the sustainable long-term rate, could send underlying inflation over 4 per cent. Growth would boom in the short term but then slip back, falling to 1.5 per cent by 2007.

**US COMPARISON** - The US has derived enormous benefits from being a monetary union, but those benefits cannot necessarily be secured by Britain if it adopts the euro. The US has a more flexible labour market and fiscal policy is less significant.

**COST OF CAPITAL** - UK firms can access the euro-denominated market for capital from outside Emu at relatively low cost at present. Euro entry would therefore increase access only "at the margin".

**ECB** - The eurozone's frameworks for setting interest rates and controlling government borrowing are different from Britain's. A "communication gap" between the general market and the ECB's rate-setting governing council could be improved by publishing <http://financialtimes.printthis.clickability.com/pt/cpt?action=cpt&expire=&urlID=6553100&fb...> 6/9/2003

the minutes and voting records of the council.

**INVESTMENT** - The UK's share of inward investment from outside the EU "has fallen relative to other EU members since the introduction of Emu", but "it is difficult to detect with any confidence a specific Emu effect". Emu "might" lead to increased domestic investment because of lower exchange rate volatility, "leading to reduced risk and lower uncertainty".

#### Related stories

[News in depth: UK and the euro](#) May 15 2003 10:36

[Treasury's 18 studies](#) Jun 09 2003 09:21

[Euro entry would need fiscal policy revolution](#) Jun 09 2003 12:39

[The influence that Britain is losing](#) Jun 08 2003 19:12

[Pound falls against euro after Treasury report](#) Jun 09 2003 12:30

 = requires [subscription](#) to FT.com

#### Find this article at:

<http://news.ft.com/s01/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&c=StoryFT&cid=1054965882227&p=1051390214162>

☐ Check the box to include the list of links referenced in the article.

